

CITY OF GAYLORD
GAYLORD, MICHIGAN
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name GAYLORD	County OTSEGO
Fiscal Year End JUNE 30, 2006	Opinion Date NOVEMBER 30, 2006	Date Audit Report Submitted to State December 28, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☐ ☒ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

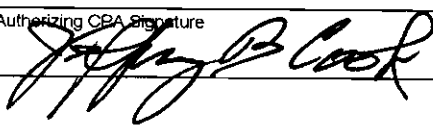
We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) KESKINE, COOK, MILLER & ALEXANDER LLP		Telephone Number 989-732-7515	
Street Address 100 W FIRST ST		City GAYLORD	State MI
Zip 49735			
Authorizing CPA Signature 	Printed Name JEFFREY B COOK	License Number 1101011876	

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CITY OFFICIALS

Mayor

Gladys Solokis

Council

Joseph Wambold – Ward 1

Todd Sharrard – Ward 2

Gerald Campbell – Ward 3

Russell Jann – At large

Patrick Mankowski – At large

Steven Johnson – At large

City Manager

Joseph Duff

City Clerk

Rebecca Curtis

City Treasurer

David Duffield

City Assessor

Deborah Dunham

Chief of Police

Joseph Fitzgerald

DDA Director

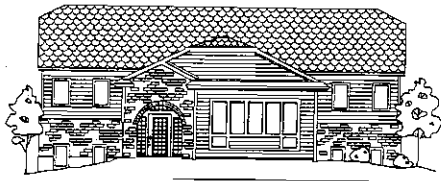
Sherrie Schuster

DPW Superintendent

Keith Roberts

WWTP Superintendent

Dale LaBelle



Keskin, Cook, Miller & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskin, C.P.A.
Jeffrey B. Cook, C.P.A.
Richard W. Miller, C.P.A.
Ronald D. Alexander, C.P.A.
Curt A. Reppuhn, C.P.A.

Independent Auditor's Report

To the City Council
City of Gaylord, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Gaylord, Michigan as of and for the year ended June 30, 2006, which collective comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gaylord, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to the financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Gaylord, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Governmental Auditing Standards, we have also issued our report dated November 30, 2006 on our consideration of the City of Gaylord, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis, retirement system schedule of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gaylord, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements of the City of Gaylord. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gaylord's basic financial statements.


Keskine, Cook, Miller & Alexander LLP

November 30, 2006

CITY OF GAYLORD

225 W. Main Street ♦ Room 109
Gaylord, Michigan 49735-1393
989-732-4060 ♦ Fax: 989-732-8266

Our discussion and analysis of the City of Gaylord, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

As discussed in further detail in this management's discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

The taxable value for fiscal year 2005/06 was \$185,216,727, an increase of 5.1% over last fiscal year's taxable value of \$176,074,462. During the fiscal year the fund balance for General Fund increased to \$1,364,670, an increase of \$457,438 over the fund balance of \$907,232 for fiscal year ending June 30, 2005. A portion of this increase can be attributed to the sale of the City-owned portion of the City/County Building to the County of Otsego in December 2005.

During fiscal year ending June 30, 2006 the City completed numerous capital improvement projects, including the 2005 Street Project/Northeast Infrastructure Project, Dickerson Road Construction Project, Storm Basin Project, Well #6 and Wellhouse Construction Project and improvements to the City's park system. In addition to the aforementioned the City also contributed funds to the County Road Commission to assist with the South Townline Road Reconstruction Project, were making preparations to begin construction of a new City Hall and DPW Expansion Project and had begun construction on the 2006 Street Improvement Project. Grants funds from various sources were received to help finance some of the projects and in May 2006, the voters of the City approved a millage levy to help finance the City Hall and DPW Expansion project.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government.

The City as a Whole

The following table shows; in a condensed format, the net assets as of June 30, 2006 (in thousands of dollars):

TABLE 1

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets	\$5,136,097	\$1,823,126	\$6,959,223
Noncurrent Assets	\$12,032,557	\$20,466,889	\$32,499,446
Total Assets	\$17,168,654	\$22,290,015	\$39,458,669
Liabilities			
Current Liabilities	\$1,196,028	\$487,989	\$1,684,017
Long-Term Liabilities	\$4,551,632	\$8,053,176	\$12,604,808
Total Liabilities	\$5,747,660	\$8,541,165	\$14,288,825
Net Assets			
Invested in Capital Assets –			
Net of Related Debt	\$7,094,571	\$11,687,354	\$18,781,925
Restricted	\$3,868,228	\$449,535	\$4,317,763
Unrestricted	\$458,195	\$1,611,961	\$2,070,156
Total Net Assets	\$11,420,994	\$13,748,850	\$25,169,844

The City's combined net assets increased 6% in the last year – increasing from \$23,718,336 to \$25,169,844.

During the fiscal year, asset additions included \$1,579,773 in street, sidewalk/bikepath and storm sewer improvements, \$179,500 in wastewater system improvements and \$786,721 in water system improvements in addition to \$364,577 in park improvements and \$18,456 in cemetery improvements. The majority of the street improvements were constructed in conjunction with the annual street improvement project. Annually the City constructs street and related infrastructure improvements that have been funded by a voter-approved millage levy since 1994. Revenues generated by the millage are restricted in use for street and related infrastructure improvements.

During fiscal year 2005/06 grant funds in excess of \$1.85 million were received to help finance the capital improvement projects. Revenues included a CDBG Grant in the amount of \$867,500 to help finance the 2005 Street Improvement/Northeast Infrastructure Project; \$323,120 in MDOT Small Urban Project Funds to help finance the Dickerson Road Construction Project and \$344,300 in CDBG/MEDC Funds to help finance the Well #6 and Wellhouse Construction Project. The City also received a MDNR Grant in the amount of \$318,000 to assist in the financing of the improvements at Dumas and Freel Parks. The balance of the proceeds used to finance the projects came from voter-approved street millage monies, general fund revenues and water fund revenues on hand. Bonds were not issued for the financing of any project completed or that had commenced during the fiscal year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations – decreased to \$458,195. This decrease is attributed to an increased investment in capital improvement projects and increase of expenses during the fiscal year.

There have been no significant changes in general operations of the City in the last year. Services provided to City residents and businesses were maintained without interruption or loss of service. As in the private sector, the cost of utilities, fuel and supplies continue to increase annually. Although the level of staffing did not increase, personnel costs continue to increase annually, including the cost of health insurance. City administration continually research methods of reducing monthly insurance premiums, including an increase in prescription co pays, while keeping a quality level of insurance coverage for its employees. Property and liability insurance costs decreased approximately \$10,000 or 11% compared to the same costs during the previous fiscal year. State shared revenues continue to decrease annually – a reduction of \$8,400 from that which was received in the previous fiscal year. General Fund did realize a marked increase in investment interest income – an increase of \$43,944 or 700% from interest income received during the previous year. This can be attributed to a slight rise in interest rates and effective investment practices.

The ongoing annual commercial and multi-family growth and development, as well as voter-approved millage levies and grant funding, continue to provide the basis for continued investment in the City. In November 2003 voters renewed the millage levy for street and related infrastructure improvements for an additional 10 years. Revenues generated by this millage did and will continue to finance improvements to streets and infrastructure, relieving other revenue sources from this financial obligation. This also insures that our street and utility systems continue to be maintained, are able to service our residents in a safe and effective manner and provide the very important foundation necessary to support the growth and development that has been experienced in the City over the last number of years. Also, in order to continually provide the best possible services to its residents, the City Council and staff aggressively has and will continue to seek revenues from outside sources to assist in funding capital improvements.

During the 2005/06 fiscal year approximately \$1.85-million from outside sources was used to fund a portion of public improvements and during the next fiscal year \$150,000 will be received to fund a portion of street and infrastructure costs. An additional \$1-million in grant funding has been committed to future projects and is expected to be received during the 2007/08 fiscal year.

Governmental Activities

The City's total governmental revenues increased by approximately \$858,852 over those of the previous fiscal year. This increase is the result of grant proceeds being received – as previously discussed – for capital improvement projects. As with the increase of revenues, expenses also increased due to the cost of construction associated with the capital improvement projects.

Business-Type Activities

The City's business-type activities consist of the Water and Wastewater Funds. Currently utility service is provided to approximately 1,800 customers, who are billed for this service on a monthly basis. The City is the sole owner of all distribution lines, storage tanks and the wastewater treatment plant. In 1999 an expansion to the original wastewater treatment plant, built in 1986, was completed. Both the original plant and its expansion were financed by bond proceeds. A portion of the bond issue used to finance the plant expansion was refinanced in the fall of 2005, resulting in interest expense savings over the term of the issue. A voter-approved millage levy and utility rates finance the payment of these debts. During the fiscal year the City continued the installation of an automated radiometer reading system. Currently 862 customers are serviced by the system – an increase of 121 since the previous fiscal year. Installation of radio read equipment will continue over the next number of years until all utility customers' meters are read through the radio read system. It is anticipated that over a period of years the system will "pay for itself" through reduction in personnel and contractual service expenses associated with reading meters. In order to generate revenues for future expansions to the water and wastewater systems, the City assesses a "capital fee" to expansions of existing and new buildings that are serviced by water and/or sewer. Capital Fees are restricted in use and can be utilized only when authorized by the City Council. In addition to grant proceeds, Capital Fees were used to help finance the \$535,300 Well #6 and Wellhouse Project completed during the fiscal year.

Revenues for utility billings for both water and wastewater increased during the fiscal year. These increases are the result three reasons. First and foremost prior to the beginning of the 2005/06 fiscal year, City staff conducted an extensive internal evaluation of both water and wastewater systems, including the entire billing process and customer classification. Changes were made to customer billings were verifiable errors were found, resulting in an increase in revenues generated by the system. Secondly in late 2005 City Council authorized a new billing rate schedule, with new rates effective beginning in January 2006. Previously rates had last been adjusted in 1999. Lastly, growth of our community has also helped increase revenue from utility billings.

It should be noted that each year during the annual Street Improvement Project, improvements are made to both the water and wastewater systems. These improvements are financed by the Municipal Street Fund, which receives its revenues from a voter-approved millage levy and grant proceeds. During the fiscal year the Municipal Street Fund financed \$162,196 in wastewater system improvements and \$227,937 in water system improvements. Currently in the design phase for fiscal year 2007/08 are street and infrastructure improvements on North Ohio Avenue and a East/West Water Main Loop Project, both which will be funded in part by MEDC Grant Proceeds.

The City's Funds

The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as special property tax millages. The General Fund pays for most of the City's government services and is used to budget all revenues and expenditures not specifically accounted for in other funds. The General Fund receives a wide variety of revenues, such as general property taxes, license fees, fines, penalties, permit fees, state-shared revenues, state and federal grant proceeds, charges for services and other revenues, which are used to fund a wide variety of services. City general administration, the Police Department, Department of Public Works, cemetery, parks and recreation, and the parking system as well as promotional activities and fire protection are the major services funded by the General Fund. The most significant activities in the General Fund are those classified as public safety, which includes the Police Department, our portion of the Otsego County Fire Department and those activities classified as public works. Public safety incurred expenses totaling \$1,111,950 and public works incurred expenses totaling \$531,262.

Improvements to the City's park system began in May 2005 and were concluded during the fiscal year. The improvements to Freel and Doumas Parks, which were in part funded by a \$318,000 MDNR Grant, included gazebos, restroom facilities, pathway systems, parking areas, playground equipment, benches, trash receptacles and irrigation. That which was not funded by grant proceeds was funded by income generated by gas wells located on City property. Also during the fiscal year was the design of a new City Hall and expansion to the existing Department of Public Works. This project, estimated to be \$4.4-million will be funded by proceeds generated by the sale of the City-owned portion of the City/County Building to the County of Otsego and bond proceeds – which will be repaid from a voter-approved millage levy passed by voters in May 2006. The Department of Public Works expansion began during the fall of 2006 and the City Hall construction is expected to begin in the spring of 2007, with the project being completed in fiscal year 2007/08.

Major and Local Street Funds record the receipt of revenues and expenses relating to the construction and maintenance of the City street system, including the maintenance of state trunklines within the corporate limits. The largest source of revenue in each fund is generated from state sources and direct contributions from General Fund.

Major and Local Street Funds do not fund the majority of street construction activities, rather the Municipal Street Fund or other Capital Improvement funds finance construction activities. As the City normally receives between 150 and 180 inches of snowfall each season, snow removal expenses historically are the largest single expense classification in each fund.

Municipal Street Fund is reported in the audit as having a deficit balance at the end of the fiscal year. This was due to timing issues only, and at the time of this writing the deficit has been eliminated. The 2006 Street Improvement Project commenced before the beginning of the 2006/07 fiscal year, therefore the tax levy of July 1, 2006 had not been assessed or tax monies to fund the project collected. Monies on hand from other funds were loaned to the Municipal Street Fund to finance the construction until tax monies were collected. All monies loaned have now been repaid to the appropriate funds.

Otsego Club, Old 27 South, DDA Pavilion, Mankowski Road, Edelweiss Village Shopping Center and Industrial Park Funds record special assessment and other revenues as well as debt retirement activities relating to each of the related capital improvement projects.

General Fund Budgetary Highlights

During the fiscal year the fund balance of General Fund increased from its ending balance on June 30, 2005 of \$907,232 to its ending balance on June 30, 2006 of \$1,364,670. The increase can be attributed to a number of items, including proceeds from the sale of the City-owned portion of the City/County Building to the County of Otsego and actual expenses being less than those budgeted for the fiscal year. As reported earlier in this communication, the completion of improvements to Freel and Doumas Parks were completed during the fiscal year as well as the continuing design of the City Hall and DPW Development Project.

Capital Asset and Debt Administration

As in previous years, during the fiscal year the City invested in a broad range of capital assets, including streets, water and sewer mains, public water well, sidewalks, equipment, improvements to the City's park system, the design of a new facility to serve as a City Hall and Department of Public Works expansion. Improvements were funded by revenue generated by a millage levy, grant proceeds and general fund proceeds. The City also continues to reduce its long-term debt and has refinanced issues when possible to lower interest expense.

Economic Factors and Future Budgets

The City continues to experience strong growth in our tax base and resulting revenue, without an increase in our general operational millage levy. The commercial and multi-family development that has continued to provide an increase in taxable value on an annual basis is anticipated to continue.

Even though development continues to occur, because of the impact of Proposal A, the City continues to monitor its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow by less than inflation, before considering new property additions. With the financial assistance of the Economic Development Administration, the City was able to complete the development of a 105-acre new Gaylord Industrial Park in August 2004. The financial assistance received, along with the creation of an industrial development district, will provide affordable opportunities and incentives for new business development, creation of jobs and an increase in commercial tax base. Since the Park's completion, a total of two development sites have been sold. A five-acre parcel was the first sold and developed by Crossroads Industries. In the 2006/07 fiscal year a 6.85 was sold and will be developed as a new Fed-Ex facility. Also, \$1-million in grant proceeds have been committed to the City for two very important projects – which are anticipated to commence late in the 2006/07 or beginning of the 2007/08 fiscal year. Projects that will be partially financed with these grant proceeds include the North Ohio Street and Infrastructure Project and the East/West Water Main Looping Project. The Water and Municipal Street Funds will provide additional financing. The City also continues to work with adjacent townships to provide property transfers into the City for developments that require public water and wastewater utilities. Ongoing discussions between Bagley Township and the City for the transfer of properties along the West M-32 corridor to Townline Road and extension of utilities to permit the development of a Meijer's complex have been very promising and at this time it is anticipated the development of the complex could commence in 2008. As it is the City's policy to not extend utilities beyond its corporate limits, the transfer of property as provided under P.A. 425 or annexation continues to provide growth and development in the community at large and increase the tax base of the City, ultimately providing a base for continued investment in the City.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customer, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.



Joseph P. Duff
City Manager

**CITY OF GAYLORD
STATEMENT OF NET ASSETS
JUNE 30, 2006**

	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Assets				
Cash & Equivalents	\$ 1,974,185	\$ 992,453	\$ 2,966,638	\$ 85,641
Receivables	3,382,935	348,114	3,731,049	-
Inventories	11,068	-	11,068	-
Internal Balances	(482,559)	482,559	-	-
Due From Component Unit	250,468	-	250,468	-
Restricted Investments	-	449,535	449,535	-
Capital Assets	12,032,557	20,017,354	32,049,911	-
Total Assets	17,168,654	22,290,015	39,458,669	85,641
Liabilities				
Accounts Payable	521,892	65,389	587,281	-
Accrued Interest Payable	51,150	82,600	133,750	-
Due to Primary Government	-	-	-	250,468
Long-term Liabilities:				
Due within One Year:				
Current Portion Long-Term Debt	622,986	340,000	962,986	-
Due in More than One Year:				
Bonds Payable	4,315,000	7,990,000	12,305,000	-
Compensated Absences	236,632	63,176	299,808	-
Total Liabilities	5,747,660	8,541,165	14,288,825	250,468
Net Assets				
Investment in Capital Assets -Net of Related Debt	7,094,571	11,687,354	18,781,925	-
Restricted For:				
Streets & Highways	34,191	-	34,191	-
Debt Service	481,388	-	481,388	-
Special Assessments	3,134,458	-	3,134,458	-
Cemetery Perpetual Care	218,191	-	218,191	-
Business Type Activities	-	449,535	449,535	-
Unrestricted	458,195	1,611,961	2,070,156	(164,827)
Net Assets	\$ 11,420,994	\$ 13,748,850	\$ 25,169,844	\$ (164,827)

See accompanying notes to the financial statements

**CITY OF GAYLORD
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

		Net (Expense) Revenue and Changes in Net Assets				
Functions/Programs	Expenses	Program Revenues			Primary Government	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Activities
Primary Government:	\$ 810,762	\$ 27,149	\$ -	\$ -	\$ (783,613)	\$ -
	1,016,350	13,119	5,279	-	(997,952)	-
	2,112,693	29,881	405,764	1,232,412	(444,636)	-
	415,953	-	-	-	(415,953)	-
	175,225	-	-	-	(175,225)	-
General Government	4,530,983	70,149	411,043	1,232,412	(2,817,379)	-
Public Safety	2,657,386	1,682,217	-	344,300	-	(630,869)
Public Works						
Recreation & Culture						
Debt Service						
Water & Sewer						
Total Primary Government	\$ 7,188,369	\$ 1,752,366	\$ 411,043	\$ 1,576,712	(2,817,379)	(630,869)
Downtown Dev Authority	\$ 442,798	\$ -	\$ -	\$ 512,943		
					(3,448,248)	
						70,145
General Revenues:						
Property Taxes						
State Shared Revenue						
Interest Income						
Gain on Sale of Joint Venture						
Miscellaneous						
Transfers						
		2,817,500	537,613		3,355,113	
		668,134	-		668,134	
		106,345	53,941		160,286	7,156
		356,308	-		356,308	
		146,672	20,081		166,753	
		(289,711)	416,233		126,522	(126,522)
Change in Net Assets		987,869	396,999		1,384,868	(49,221)
Net Assets (Deficit) - July 1		10,433,125	13,351,851		23,784,976	(115,606)
Net Assets (Deficit) - June 30		\$ 11,420,994	\$ 13,748,850		\$ 25,169,844	\$ (164,827)

See accompanying notes to the financial statements

**CITY OF GAYLORD
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	Special Revenue Funds			
	GENERAL	MAJOR STREETS	LOCAL STREETS	MUNICIPAL STREETS
ASSETS				
Cash and Equivalents	\$ 1,261,921	\$ 109,539	\$ 7,188	\$ 3,723
Accounts Receivable	64,553	42,897	13,196	67,831
Inventories	11,068	-	-	-
Due from Other Funds	447,335	2,796	8,670	70,276
Total Assets	1,784,877	155,232	29,054	141,830
LIABILITIES AND FUND EQUITY				
Liabilities				
Accounts Payable	95,659	825	665	398,323
Due to Other Funds	324,548	144,551	4,054	220,000
Deferred Revenue	-	-	-	-
Total Liabilities	420,207	145,376	4,719	618,323
Fund Equity				
Fund Balance (Deficit)	1,364,670	9,856	24,335	(476,493)
Total Liabilities and Fund Equity	\$ 1,784,877	\$ 155,232	\$ 29,054	\$ 141,830

Debt		Service Funds		Capital Project Fund		
HIDDEN VALLEY	OLD 27	DDA STREETSCAPE	EDELWEISS	NONMAJOR FUNDS	TOTAL	
\$ 227,906	\$ 205,959	\$ -	\$ 14,156	\$ 53,026	\$ 1,883,418	
415,000	543,585	975,000	848,931	351,942	3,322,935	
-	-	-	-	-	11,068	
-	-	-	-	5,483	534,560	
642,906	749,544	975,000	863,087	410,451	5,751,981	
-	-	-	-	1,271	496,743	
621	-	-	-	520,341	1,214,115	
415,000	543,585	975,000	848,931	351,942	3,134,458	
415,621	543,585	975,000	848,931	873,554	4,845,316	
227,285	205,959	-	14,156	(463,103)	906,665	
\$ 642,906	\$ 749,544	\$ 975,000	\$ 863,087	\$ 410,451	\$ 5,751,981	

See accompanying Notes to the Financial Statements

CITY OF GAYLORD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total Fund Balances - Governmental Funds (Per Balance Sheet - Page 14)	\$	906,665
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental fund balance sheets		11,525,884
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Receivables reported in the fund statements reflect only current financial resources and do not reflect long-term amounts		60,000
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Special assessment receivables are long-term and are not reflected in the fund statements		3,134,458
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Accrued Interest on long-term liabilities are not included in the fund statements		(51,150)
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Bonds and notes payable are not reported in the fund statements		(4,930,000)
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Compensated absences are not reflected in the fund statements		(236,632)
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Internal service funds are included as governmental activities		<u>1,011,769</u>
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Total Net Assets - Governmental Activities (Page 12)	\$	<u>11,420,994</u>
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See accompanying notes to the financial statements

CITY OF GAYLORD
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	Special Revenue Funds			
	GENERAL	MAJOR STREETS	LOCAL STREETS	MUNICIPAL STREETS
Revenue:				
Property Taxes	\$ 2,103,655	\$ -	\$ -	\$ 743,844
Federal Grants	2,702	-	-	1,237,412
State Shared / Intergovernmental	659,238	317,255	97,405	-
Licenses and Permits	2,455	-	-	-
Cemetery	27,149	-	-	-
Interest Income	82,830	-	-	-
Police and Parking	35,577	-	-	-
Special Assessments	-	-	-	-
Sale of Assets	653,594	-	-	-
Other	(48,050)	-	-	1,831
Total Revenue	3,519,150	317,255	97,405	1,983,087
Expenditures:				
General Government	859,358	-	-	-
Public Safety	1,111,950	-	-	-
Public Works	531,262	279,420	1,334,059	1,032,255
Recreation & Culture	425,219	-	-	-
Debt Service	-	-	-	-
Total Expenditures	2,927,789	279,420	1,334,059	1,032,255
Other Financing Sources (Uses):				
Contribution from Other Funds	62,500	-	1,238,724	-
Contribution to Other Funds	(196,423)	(129,842)	-	(1,429,015)
Total Other Financing Sources (Uses)	(133,923)	(129,842)	1,238,724	(1,429,015)
Net Change in Fund Balances	457,438	(92,007)	2,070	(478,183)
Fund Balance (Deficit) - July 1	907,232	101,863	22,265	1,690
Fund Balance (Deficit) - June 30	\$ 1,364,670	\$ 9,856	\$ 24,335	\$ (476,493)

Debt Service Funds			Capital Project Fund		
HIDDEN VALLEY	OLD 27	DDA STREETSCAPE	EDELWEISS	NONMAJOR FUNDS	TOTAL
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,847,499
-	-	-	-	-	1,240,114
-	-	-	-	-	1,073,898
-	-	-	-	-	2,455
-	-	-	-	-	27,149
9,607	9,153	64,213	757	2,223	168,783
-	-	-	-	-	35,577
100,700	126,032	150,000	108,074	4,270	489,076
-	-	-	-	-	653,594
-	-	-	-	13,482	(32,737)
110,307	135,185	214,213	108,831	19,975	6,505,408
-	-	-	-	-	859,358
-	-	-	-	-	1,111,950
-	-	-	-	-	3,176,996
-	-	-	-	-	425,219
101,021	165,688	214,213	99,130	205,444	785,496
101,021	165,688	214,213	99,130	205,444	6,359,019
-	-	-	-	164,345	1,465,569
-	-	-	-	-	(1,755,280)
-	-	-	-	164,345	(289,711)
9,286	(30,503)	-	9,701	(21,124)	(143,322)
217,999	236,462	-	4,455	(441,979)	1,049,987
\$ 227,285	\$ 205,959	\$ -	\$ 14,156	\$ (463,103)	\$ 906,665

See accompanying Notes to the Financial Statements

**CITY OF GAYLORD
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Net change in fund balances - total governmental funds (Page 16)	\$	(143,322)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities; these costs are allocated over the useful lives of the assets using depreciation

Capital Outlay Purchases		1,962,806
Current Year Depreciation		(686,939)

Change in the investment in joint ventures is reported in the statement of activities, not in the governmental funds		(297,286)
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Special assessment revenues are recorded in the statement of activities when the assessment is levied; they are not reported in the funds until collected or collectible within 60 days of year end		(447,411)
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Accrued interest income is recorded in the statement of activities when earned; it is reported in the fund statements when received		
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Property tax revenues are reported in the statement of activities when levied; they are reported in the funds when collected		(30,000)
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Interest expense is recorded as paid in the fund statements; it is reported as accrued in the statement of activities		5,750
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Payments of bond principal is an expenditure in the governmental fund statements but reduces long-term debt in the government wide statements		590,000
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Decreases in accumulated employee benefits and other liabilities are recorded as incurred in the statement of activities and as paid in the governmental funds		5,128
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Internal service fund balance changes are included as governmental activities		29,143
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Change in Net Assets of Governmental Activities (Page 13)	\$	<u>987,869</u>
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See accompanying notes to the financial statements

**CITY OF GAYLORD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006**

	ENTERPRISE FUNDS			
	WATER	SEWER	TOTAL	INTERNAL SERVICE
ASSETS				
CURRENT ASSETS				
Cash and Equivalents	\$ 96,167	\$ 896,286	\$ 992,453	\$ 67,254
Accounts Receivable	101,766	246,348	348,114	-
Due from Other Funds	477,000	260,000	737,000	470,976
Restricted Cash	25,690	423,845	449,535	-
Total Current Assets	700,623	1,826,479	2,527,102	538,230
CAPITAL ASSETS, NET	3,453,128	16,564,226	20,017,354	506,673
Total Assets	4,153,751	18,390,705	22,544,456	1,044,903
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable	13,660	51,729	65,389	25,148
Due to Other Funds	50,550	203,891	254,441	-
Accrued Interest Payable	-	82,600	82,600	-
Current Portion Long-term Debt	-	340,000	340,000	7,986
Total Current Liabilities	64,210	678,220	742,430	33,134
NONCURRENT LIABILITIES				
Bonds and Notes Payable	-	7,990,000	7,990,000	-
Compensated Absences	17,012	46,164	63,176	-
Total Liabilities	81,222	8,714,384	8,795,606	33,134
NET ASSETS				
Investment in Capital Assets - Net of Related Debt	3,453,128	8,234,226	11,687,354	498,687
Restricted	25,690	423,845	449,535	-
Unrestricted	593,711	1,018,250	1,611,961	513,082
Total Net Assets	\$ 4,072,529	\$ 9,676,321	\$ 13,748,850	\$ 1,011,769

See accompanying notes to the financial statements

CITY OF GAYLORD
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	ENTERPRISE FUNDS			INTERNAL SERVICE
	WATER	SEWER	TOTAL	
OPERATING REVENUE				
Charges for Services	\$ 525,306	\$ 1,156,911	\$ 1,682,217	\$ -
Equipment Rental and Other	-	-	-	515,622
Total Operating Revenue	525,306	1,156,911	1,682,217	515,622
OPERATING EXPENSES				
Personnel Services	221,387	416,235	637,622	135,850
Utilities	47,521	111,519	159,040	-
Depreciation	73,553	564,173	637,726	116,607
Supplies and Repairs	35,686	41,558	77,244	194,098
Contracted Services	95,430	135,218	230,648	-
Equipment Rental	50,476	46,407	96,883	77
Miscellaneous	75,948	33,379	109,327	40,898
Total Operating Expenses	600,001	1,348,489	1,948,490	487,530
Operating Income (Loss)	(74,695)	(191,578)	(266,273)	28,092
NON-OPERATING REVENUE (EXPENSE)				
Interest on Investments	8,080	45,861	53,941	1,051
Interest Expense	-	(688,814)	(688,814)	-
Property Taxes	-	537,613	537,613	-
Federal Grants	344,300	-	344,300	-
Income (Loss) Before Other Financing Sources	277,685	(296,918)	(19,233)	29,143
Other Financing Sources (Uses):				
Transfers In (Out)	254,037	162,196	416,233	-
Change in Net Assets	531,722	(134,722)	397,000	29,143
NET ASSETS - JULY 1	3,540,807	9,811,043	13,351,850	982,626
NET ASSETS - JUNE 30	\$ 4,072,529	\$ 9,676,321	\$ 13,748,850	\$ 1,011,769

See accompanying notes to the financial statements.

**CITY OF GAYLORD
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2006**

	<u>Enterprise Funds</u>			<u>Internal Service Fund</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>	
Cash Flows from Operating Activities				
Receipts from customers	477,699	1,078,628	1,556,327	-
Payments to suppliers	(219,635)	(372,010)	(591,645)	(237,303)
Payments to employees	(217,784)	(410,700)	(628,484)	(135,850)
Internal activity	(163,220)	1,465	(161,755)	565,545
Net cash provided (used) by operating activities	(122,940)	297,383	174,443	192,392
Cash Flows from Capital and Related Financing Activities				
Collection of property taxes	-	537,613	537,613	-
Federal Grant Proceeds	344,300	-	344,300	-
Purchase of capital assets	(569,445)	(44,061)	(613,506)	(173,637)
Principal and interest paid on debt	-	(573,813)	(573,813)	-
Net cash provided (used) by capital and related financing activities	(225,145)	(80,261)	(305,406)	(173,637)
Cash Flows from Investing Activities				
Interest received on investments	8,080	45,861	53,941	1,051
Net Increase (Decrease) in Cash and Cash Equivalents	(340,005)	262,983	(77,022)	19,806
Cash and Cash Equivalents - July 1	461,862	1,057,148	1,519,010	47,448
Cash and Cash Equivalents - June 30	121,857	1,320,131	1,441,988	67,254
Statement of Net Assets Classification of Cash and Cash Equivalents				
Cash and Equivalents	96,167	896,286	992,453	67,254
Restricted Cash	25,690	423,845	449,535	-
Total Cash and Equivalents	121,857	1,320,131	1,441,988	67,254
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	(74,695)	(191,578)	(266,273)	20,413
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	73,553	564,173	637,726	116,607
Changes in assets and liabilities:				
Receivables	(47,607)	(78,283)	(125,890)	-
Due to/from other funds	(77,000)	7,000	(70,000)	50,000
Accounts payable	(794)	8,486	7,692	5,372
Accrued and other liabilities	3,603	(12,415)	(8,812)	-
Net cash provided (used) by operating activities	(122,940)	297,383	174,443	192,392

See accompanying notes to the financial statements

**CITY OF GAYLORD
STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2006**

	Tax Collection Fund
ASSETS	
Cash & Equivalents	<u>\$ 23,512</u>
LIABILITIES	
Due to General Fund	<u>\$ 23,512</u>

See accompanying notes to the financial statements

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Gaylord, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Gaylord, Michigan.

Reporting Entity

The City of Gaylord, Michigan is governed by an elected seven-member council. The accompanying financial statements present the city and its component unit. The discretely presented component unit is reported in a separate column in the government wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Discretely Presented Component Unit

The Downtown Development Authority (DDA) is reported within the component unit column in the government-wide financial statements to emphasize that it is legally separate from the City. The DDA was created to analyze the impact of economic changes and growth in the downtown district. The DDA's governing body, which consists of 13 individuals, is appointed by the mayor. In addition, the DDA's budget is subject to approval by the City Council. Upon dissolution of the DDA, its assets revert to the city.

Jointly Governed Organizations

Otsego County Fire Board – In 1977, City entered into a joint venture with several townships in Otsego County to create the Otsego County Fire Board. The purpose of this venture is to obtain adequate fire protection for the covered area. The agreement calls for the Otsego County Fire Board to prepare an operating budget and to bill each member their share of the expenses based on a formula that includes property valuation and population. The Otsego County Fire Board is governed by a group composed of 13 members, two from each Township and two from the city and one at large. A chairman is appointed from within the 13 members to preside over the meetings. Several assets, such as motor vehicles, are not in the Otsego County Fire Board's name, but are in the name of a member. The members of this venture have, however, delegated authority for the operation for the department and maintenance of the assets to the 13-member governing body. The City's share of expenses is 26 percent. Complete financial statements can be obtained at P.O. Box 954, Gaylord, Michigan, 49734.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. statement of net assets and statement of activities) report information on all of the nonfiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the City is reported separately from its legally separate component unit, for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considered revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-share revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period.

Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund – The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from property taxes, state-shared revenue, and other sources.

Major Streets Special Revenue Fund – The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

Local Streets Special Revenue Fund – The Local Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

Municipal Streets Special Revenue Fund – The Municipal Streets Fund accounts for the resources from a property tax levy restricted for the improvements of streets and related infrastructure.

CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Hidden Valley Debt Service Fund – The Hidden Valley Fund accounts for the resources of special assessment proceeds that are used for the annual payment of principal, interest, and expenses in connection with certain long-term debt.

Old 27 South Debt Service Fund – The Old 27 South Fund accounts for the resources of special assessment proceeds that are used for the annual payment of principal, interest, and expenses in connection with certain long-term debt.

DDA Streetscape Debt Service Fund – The DDA Streetscape Fund Accounts for the resources of the special assessment proceeds from the DDA that are used to pay the debt payments of the DDA Streetscape.

Edelweiss Shopping Center Capital Projects Fund – The Edelweiss Shopping Center Capital Projects Fund accounts for the development of capital facilities for the Edelweiss Shopping Center.

The City reports the following major proprietary funds:

Water and Sewer Funds – The Water and Sewer Funds account for the activities of the water distribution system and sewage collection system. These funds are financed primarily by user charges.

Additionally, the City reports the following fund types:

Internal Service Funds – Internal Service Funds account for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

Agency Funds – The Agency Fund accounts for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Nonmajor Governmental Funds – Nonmajor governmental funds consist of miscellaneous Debt Service Funds and Capital Projects Funds. Debt Service Funds are used to account for the annual payment of principal interest and expenses in connection with certain long-term debt. Capital Projects Funds are used to account for the development of capital facilities other than those financed by the operation of an Enterprise Fund.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Nonmajor Governmental Funds (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g. labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 15, at which time penalties and interest are assessed. The final collection date is February 28, before they are added to the county tax rolls.

The City's property taxes were levied and collectible on July 1, 2005 and are recognized as revenue in the year ended June 30, 2006. The proceeds of the levy were budgeted and available for the financing of operations during the year ended June 30, 2006.

The 2005 taxable valuation of the City totaled \$185,216,727 million (a portion of which is captured by the TIFA), on which taxes levied consisted of 11.5869 mills for operating purposes, 4.1513 mills for streets, and 3.0 mills for debt service. This resulted in \$ 2.1 million for operating, \$744,000 for streets, and \$538,000 for debt service. These amounts are recognized in the respective General, Special Revenue, and Sewer Funds financial statements as tax revenue.

In addition, 1.8582 mills is levied for the DDA and is recorded as tax revenue in the DDA.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from" other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of an allowance for uncollectible amounts.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets – The revenue bonds of the Enterprise Funds require amounts to be set aside for debt service principal and interest. These amounts have been classified as restricted assets, as well as unspent fees charged by the City for improvements and expansions of the water and sewer systems.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was capitalized as part of the cost of assets under construction.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	15 to 20 years
Water and sewer distribution systems	50 to 75 years
Water and sewer buildings and improvements	40 to 50 years
Buildings and building improvements	40 to 50 years
Vehicles	3 to 5 years
Office furnishings	5 to 7 years
Other tools and equipment	3 to 7 years

Compensated Absences (Vacation and Sick Leave) – It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the live of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

NOTE 2: BUDGETARY INFORMATION

Budgetary Information – Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds.

The budget document presents information by fund, function, department, and line items. The budget has been adopted based on total revenue and expenditures by fund; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

NOTE 2: BUDGETARY INFORMATION (CONTINUED)

The annual budget is prepared by City management and adopted by the City Council approximately 30 days before the beginning of the fiscal year. A public hearing on the budget shall be held before its final adoption, at such time and place as the Council shall direct, and notice of such public hearing shall be published at least one week in advance by the clerk. Subsequent amendments are approved by the City Council if determined necessary. Unexpected appropriations lapse at year end; encumbrances are not included as expenditures. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. The amount of encumbrances is not calculated as of June 30, 2006.

Excess of Expenditures in Budgeted Funds – The City did not have excess of total expenditures over the budget as adopted by the City.

NOTE 3: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Fund Deficits – The City has accumulated fund deficits in the following funds:

Municipal Streets	\$ 476,493
Pavillion Debt	1,857
IDC Capital Project	490,976
City Hall Capital Project	20,271

The City is in the process of filing a plan with the Local Audit and Finance Division.

NOTE 4: DEPOSITS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental unites to make deposits and invest in the accounting of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentally of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has designated four banks for the deposit of its funds.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

NOTE 4: DEPOSITS (CONTINUED)

The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The City of Gaylord, Michigan's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total Primary Government	Component Unit
Cash and Cash Equivalents	\$ 1,974,185	\$ 992,453	\$ 23,512	\$ 2,990,150	\$ 85,641
Restricted Assets	-	449,535	-	449,535	-
Total	<u>\$ 1,974,185</u>	<u>\$ 1,441,988</u>	<u>\$ 23,512</u>	<u>\$ 3,439,685</u>	<u>\$ 85,641</u>

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Unit
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 3,439,335	\$ 85,641
Petty cash or cash on hand	350	-
Total	<u>\$ 3,439,685</u>	<u>\$ 85,641</u>

Deposits

The bank balance of the City's deposits is \$3,596,633, of which \$400,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component unit deposits had a bank balance of \$85,641 of which \$85,641 was covered by federal depository insurance.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

NOTE 5: RECEIVABLES

Receivables as of year end for the City's individual major funds and the nonmajor, Internal Service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Special Assessments</u>	<u>Accounts</u>	<u>Inter- Governmental</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Receivable</u>
General Fund	\$ -	\$ 120,000	\$ 64,553	\$ 60,000	\$ 124,553
Special Revenue					
Municipal Streets -		-	67,831	-	67,831
Major Streets	-	-	42,897	-	42,897
Local Streets	-	-	13,196	-	13,196
Debt Service Funds:					
Hidden Valley	415,000	-	-	-	415,000
Old 27 South	543,585	-	-	-	543,585
DDA Streetscape	975,000	-	-	-	975,000
Edelweiss Shopping Center	848,931	-	-	-	848,931
Other Nonmajor govern- mental funds	351,942	-	-	-	<u>351,942</u>
					<u>3,382,935</u>
Total governmental activity					
Water	-	101,766	-	-	101,766
Sewer	-	246,348	-	-	<u>246,348</u>
Total business-type activities					<u>348,114</u>
Total primary government					<u>\$ 3,731,049</u>
Component Unit					<u>\$ -</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments	<u>\$ 3,134,458</u>	<u>\$ 3,134,458</u>

CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

NOTE 6: CAPITAL ASSETS

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 31, 2005	Additions	Disposals	Balance June 30, 2006
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 1,502,540	\$ -	\$ -	\$ 1,502,540
Capital assets being depreciated:				
Roads & Sidewalks	11,344,072	1,598,229	-	12,942,301
Buildings & Improvements	1,742,084	364,577	-	2,106,661
Vehicles	1,046,219	110,834	-	1,157,051
Office Furnishings	250,000	-	-	250,000
Other tools & Equipment	646,916	62,804	-	709,720
Subtotal	15,029,289	2,136,444	-	17,165,733
Accumulated Depreciation:				
Roads & Sidewalks	3,915,297	602,202	-	4,517,499
Buildings & Improvements	375,413	61,529	-	436,942
Vehicles	768,025	66,497	-	834,522
Office Furnishings	212,500	25,000	-	237,500
Other tools & Equipment	560,935	48,318	-	609,253
Subtotal	5,832,170	803,546	-	6,635,716
Net capital assets being Depreciated	9,197,119	1,332,898	-	10,530,017
Net capital assets	\$ 10,699,659	\$ 1,332,898	\$ -	\$ 12,032,557

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
Business-Type Activities				
Capital assets not being depreciated-Land	\$ 414,080	\$ -	\$ -	\$ 414,080
Capital assets being depreciated:				
Water & sewer distribution systems	25,037,973	440,930	-	25,478,903
Buildings & building improvements	42,763	-	-	42,763
Other tools & equipment	944,783	588,807	-	1,533,590
Subtotal	26,025,519	1,029,737	-	27,055,256
Accumulated depreciation:				
Water & sewer distribution systems	6,422,531	568,512	-	6,991,043
Buildings & building improvements	41,693	260	-	41,953
Other tools & equipment	350,032	68,954	-	418,986
Subtotal	6,814,256	637,726	-	74,519,82
Net capital assets being depreciated	19,211,263	(392,011)	-	19,603,274
Net capital assets	19,625,343	(339,720)	-	20,017,354

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

NOTE 6: CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to programs of the City as follows:

Governmental activities:	
General government	\$ 25,000
Public Works	661,939
Internal Service Fund depreciation is charged to the Various functions based on their usage of the asset	<u>116,607</u>
Total governmental activities	<u>\$ 803,546</u>
Business-type activities:	
Water	\$ 73,553
Sewer	<u>564,173</u>
Total business-type activities	<u>\$ 637,726</u>

NOTE 7: INTERFUND RECEIVABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from Other Funds		
General Fund	Municipal Street Fund	\$ 120,000
	Pavilion Debt Service Fund	7,365
	Hidden Valley Debt Service Fund	621
	Sewer Fund	24,819
	Water Fund	550
	DDA	250,468
	Industrial Park Fund	20,000
	Tax Collection	<u>23,512</u>
		447,335
Major Streets Special Revenue Fund	General Fund	2,796
Local Street Special Revenue Fund	General Fund	8,670
Municipal Street Special Revenue Fund	General Fund	70,276
Nonmajor governmental funds	General Fund	<u>5,483</u>
	Total governmental activities	534,560
Water Enterprise Fund	Municipal Streets Fund	77,000
	Sewer Fund	175,000
	General Fund	<u>225,000</u>
	Total Water Fund	477,000

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

NOTE 7: INTERFUND RECEIVABLES, AND TRANSFERS (CONTINUED)

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sewer Enterprise Fund	Water Fund	\$ 50,000
	City Hall Fund	22,000
	Municipal Streets	23,000
	Major Streets Fund	144,551
	General Fund	16,395
	Local Streets	<u>4,054</u>
	Total Sewer Fund	<u>260,000</u>
	Total Enterprise Funds	737,000
Internal Service Fund	Industrial Park Fund	<u>470,976</u>
	Total Internal Service Fund	<u>470,976</u>
	Total	<u>\$ 1,742,536</u>

The balance due from the Industrial Park Capital Projects Fund resulted from loans made to finance a portion of the roads and related infrastructure in the Industrial Park. Loans will be repaid from revenue generated by lot sales in the Industrial Park. All other balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Edelweiss Debt Service Fund	62,795
	Other governmental fund Pavilion	<u>97,528</u>
	Total General Fund	160,323
Major Streets Fund	Local Street Fund	129,842
Municipal Street Fund	Local Street Fund	1,108,882
	Sewer Fund	162,196
	Water Fund	<u>157,937</u>
		1,429,015
DDA	General	52,500
	Water	70,000
	Pavillion	<u>4,022</u>
		126,522
	Total	<u>\$ 1,845,702</u>

The transfer from the General Fund to the Local Streets Fund represents the use of unrestricted resources to finance that program, in accordance with budgetary authorizations. The transfer from the Major Street Fund to the Act 175 Debt Service Fund represents movement of resources to be used to service the Major Streets Fund debt. The transfer from the Sewer Fund to the Industrial Park Capital Projects Fund was a direct contribution to finance a portion of the sewer infrastructure.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

NOTE 8: LEASES

Capital Leases – The City has entered into a lease agreement as lessee for financing the purchase of a 2005 Ford Crown Victoria Police Car. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The related debt is recorded in long-term debt (see Note 9). The lease will mature as follows. The future minimum lease obligations and the net present value are as follows:

Fiscal year ending June 30, 2007	\$ 8,306
Less amount representing interest	<u>(320)</u>
Present Value	<u><u>7,986</u></u>

NOTE 9: LONG-TERM DEBT

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties which benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities				
General obligation bonds:				
1994 Tax Increment Financial bonds, payable in installments of \$25,000 through \$200,000, plus interest ranging from 5% to 8% through 2011	\$ 1,125,000	\$(150,000)	\$ 975,000	\$ 175,000
2003 General Obligation Limited tax bonds, payable in installments of \$20,000 through \$75,000, plus interest at 3% to 5% through 2022	975,000	(25,000)	950,000	25,000
2001 Limited Tax Development Bonds, payable in installments of \$75,000 through \$125,000, plus interest ranging from 3.5% to 4.6% through 2010	600,000	(75,000)	525,000	75,000
2003 General Obligation Limited Tax Bonds, payable in installments of \$50,000 through \$75,000, plus interest at 2.0% to 3.1% through 2012	510,000	(50,000)	460,000	50,000

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

NOTE 9: LONG-TERM DEBT (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities (continued)				
Special assessment bonds:				
1996 Special Assessment Limited Tax Bonds payable in installments of \$25,000 through \$125,000, plus interest ranging from 4.5% to 5.5% through 2011	825,000	(125,000)	700,000	125,000
2003 Special Assessment Limited Tax Bonds, payable in installments of \$25,000 through \$75,000, plus interest ranging from 2.0% to 3.7% through 2017	880,000	(75,000)	805,000	75,000
1997 Special Assessment Limited Tax Bonds payable in installments of \$65,000 through \$75,000, plus interest at 6.5% through 2012	490,000	(75,000)	415,000	75,000
1997 Special Assessment Limited Tax Bonds, payable in installments of \$10,000 through \$15,000, plus interest at 8% through 2012	115,000	(15,000)	100,000	15,000
Capital leases (see Note 8)	<u>15,662</u>	<u>(7,679)</u>	<u>7,986</u>	<u>7,986</u>
Total governmental bonds and leases	5,535,565	(597,679)	4,937,886	622,986
Compensated absences	<u>241,761</u>	<u>(5,129)</u>	<u>236,632</u>	<u>236,632</u>
Total governmental activities	<u>\$ 5,777,426</u>	<u>\$ (602,808)</u>	<u>\$ 5,174,618</u>	<u>\$ 859,618</u>
Business-type Activities (continued)				
General obligation bonds – 1999 General Obligation Unlimited Tax Bond payable in installments of \$185,000 through \$600,000, plus interest ranging from 4% to 6% through 2020	\$ 6,125,000	\$(4,775,000)	\$ 1,350,000	\$ 250,000
2005 Refunding Bonds payable Installments of \$50,000, \$570,000; plus Interest ranging from 3% - 4% through 2019	-	4,975,000	4,975,000	50,000
Revenue bonds – 1999 Revenue Bond payable in installments of \$60,000 through \$195,000, plus interest ranging from 4% to 6% through 2020	<u>2,090,000</u>	<u>(85,000)</u>	<u>2,005,000</u>	<u>90,000</u>
Total business-type bonds	8,215,000	(115,000)	8,330,000	390,000
Compensated absences	<u>54,039</u>	<u>(9,137)</u>	<u>63,176</u>	<u>63,176</u>
Total business-type activities	<u>\$ 8,269,039</u>	<u>\$ (124,137)</u>	<u>\$ 8,393,176</u>	<u>\$ 453,176</u>

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

NOTE 9: LONG-TERM DEBT (CONTINUED)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	<u>Governmental Activities</u>			<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 615,000	\$ 214,108	\$ 829,108	\$ 390,000	\$ 357,824	\$ 747,824
2008	665,000	186,520	851,520	395,000	336,744	731,744
2009	665,000	156,118	821,118	400,000	315,256	715,256
2010	710,000	124,990	834,990	460,000	295,451	755,451
2011	730,000	92,015	822,015	455,000	277,556	732,556
2012-2016	945,000	203,098	1,148,098	2,670,000	1,086,341	3,756,341
2017-2021	450,000	85,239	535,239	3,560,000	418,200	3,978,200
2022-2026	150,000	7,481	157,481	-	-	-
Total	<u>\$ 4,930,000</u>	<u>\$ 1,069,769</u>	<u>\$ 5,999,769</u>	<u>\$ 8,330,000</u>	<u>\$ 3,087,372</u>	<u>\$ 11,417,372</u>

NOTE 10: REFINANCED BOND ISSUE

General Obligation Unlimited Tax Refunding Bonds, Series 2005 – The City of Gaylord has issued refunding bonds dated October 13, 2005. the purpose of the issue was to partially retire UTGO Wastewater Bonds, Series 1999 in the amount of \$4,550,000 with Interest rates ranging from 5.00% - 6.00% payable October 1, 2009 – 2019. Such bonds will be called and retired on October 1, 2008.

This transaction in substance pays off the debt as proceeds from the new issue are placed with a paying agent who will invest and pay out the proceeds and retire the debt identified above.

The new issue has maturities ranging from October 1, 2006 – 2019 in amounts ranging from \$50,000 - \$570,000 with interest rates ranging from 3.00% - 4.00%. The purpose of the issue was to effectuate a savings over the life of the issue due to interest rate reductions. The calculated savings on a present value basis is calculated at \$119,636.

NOTE 11: RESTRICTED INVESTMENTS

The balances of the restricted investment accounts are as follows:

	<u>Business-type Activities</u>
Improvement and replacement account	\$ 25,690
Bond reserve requirements	<u>423,845</u>
Total restricted investments	<u>\$ 449,535</u>

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

NOTE 12: RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for coverage of general claims, as well as for coverage of health claims, and participates in the Michigan Municipal League risk pool for claims related to workers' compensation insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local unites of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 13: DEFINED BENEFIT PENSION PLAN

Plan Description – The City participates in the Michigan Municipal Employees Retirement System, as agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and nonunion employee group. All full-time employees are eligible to participate in the plan. The City contributes the necessary amount to fund the actuarially determined benefits.

Annual Pension Cost – For the year ended June 30, 2006, the City's annual pension cost of \$273,210 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age actuarial cost method. Significant actuarial assumptions used include (1) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year (not including merit or longevity raises), and (c) 3 to 4 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of any given year's variation from an 8 percent return over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

NOTE 13: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Annual Pension Cost (Continued)

Three-year trend information is as follows:

	Fiscal Year Ended June 30,		
	2004	2005	2006
Annual pension costs (APC)	\$ 179,681	\$ 238,836	\$ 273,210
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None

NOTE 14: DEFINED CONTRIBUTIONS PENSION PLANS

In addition to the above defined benefit pension plan, the City also maintains two separate defined contribution plans as follows:

457 Plan

The City provides benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the City, the City contributes 3 percent of employees' base earnings and employee contributions for each employee plus interest allocated to the employee's account are fully vested after one year of service.

The City's total payroll during the year was \$1,860,000. The current year contribution was calculated based on covered payroll of \$1,422,575, resulting in an employer contribution of \$42,677 and employee contributions of approximately \$110,000.

401 Plan

The City provides pension benefits to several people in the form of a 401 Plan only. As established by the City, the City contributes a percentage of the employees base earnings. The current year contribution was calculated based on covered payroll of \$125,047, resulting in an employer contribution of \$27,771 and no employee contribution.

NOTE 15: OTHER POSTEMPLOYMENT BENEFITS

The City provides health care benefits to retirees in accordance with a postemployment benefit plan for all employees effective November 1996. Currently, six retirees are eligible. The City pays \$205 of the monthly premium and the retiree pays the balance.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

NOTE 15: OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The City pays 50 percent of the health care premiums for three retired employees who are not covered under the plan described above. Expenditures for post-employment health care benefits are recognized annually as the insurance premiums become due. These benefits totaled approximately \$20,628 during the year ended June 30, 2006.

Upcoming Reporting Change – The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other postemployment benefits (other than pensions)”. The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

NOTE 16: SUBSEQUENT EVENTS

General Obligation Unlimited Tax Bonds, Series 2006 – The City of Gaylord has issued new debt dated August 1, 2006. Voters approved a Municipal Building bond proposal on May 2, 2006 allowing the borrowing of up to \$3,800,000 for the purpose of acquiring, constructing and furnishing a new city hall. A millage will be levied beginning in 2006 to provide funding for retirement of the bonds. The average millage rate expected over the life of the issue is .9064 mills.

The city has acquired the site and demolished the existing building as of June 30, 2006.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
REVENUES:				
Taxes				
Real Property	\$ 2,177,830	\$ 2,177,830	\$ 2,098,096	\$ (79,734)
Penalties	-	-	5,559	5,559
Total	2,177,830	2,177,830	2,103,655	(74,175)
Licenses and Permits				
Business Licenses & Permits	1,500	1,500	2,295	795
Sign Permits	300	300	160	(140)
Total	1,800	1,800	2,455	655
Intergovernmental Revenue				
Sales and use tax	334,908	334,908	329,774	(5,134)
State Grant - Parks	-	-	318,000	318,000
Shared Liquor License	12,150	12,150	11,464	(686)
Total	347,058	347,058	659,238	312,180
Cemetery				
Foundations	2,500	2,500	3,024	524
Grave Openings	6,000	6,000	11,310	5,310
Lot Care	1,500	1,500	1,230	(270)
Lot Sales	7,000	7,000	11,585	4,585
Interest - perpetual care invest.	-	-	-	-
Total	17,000	17,000	27,149	10,149
Police				
Federal Grants	1,200	1,200	5,279	4,079
Court Costs	17,000	17,000	9,382	(7,618)
Other revenue	1,700	1,700	3,737	2,037
Total	19,900	19,900	18,398	(1,502)

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Parking System				
Meter revenue	4,500	4,500	4,474	(26)
Parking Lot Permit Fees	8,400	8,400	6,166	(2,234)
Parking Meter Fines	3,500	3,500	3,323	(177)
Parking Violation Fines	5,500	5,500	5,918	418
Total	21,900	21,900	19,881	(2,019)
Other Revenue				
Interest Income	6,000	6,000	82,830	76,830
Sale of Assets	427,900	427,900	653,594	225,694
Other Revenue	-	-	(66,656)	(66,656)
Royalties	13,500	13,500	18,606	5,106
Total	447,400	447,400	688,374	240,974
Total Revenue	3,032,888	3,032,888	3,519,150	486,262

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
EXPENDITURES:				
General Government:				
City Council				
Salaries	9,800	9,800	9,800	-
Fringe Benefits	29,800	29,800	31,157	(1,357)
Office Supplies	300	300	24	276
Expenses & Education	12,000	12,000	7,651	4,349
Publishing	7,000	7,000	5,564	1,436
New Equipment	-	-	-	-
Total	58,900	58,900	54,196	4,704
City Manager				
Salaries	28,567	28,567	28,041	526
Fringe Benefits	15,712	15,712	13,422	2,290
Office Supplies	300	300	176	124
Telephone Expense	1,200	1,200	940	260
Expenses & Education	8,000	8,000	6,258	1,742
Miscellaneous	50	50	-	50
New Equipment	150	150	-	150
Total	53,979	53,979	48,837	5,142
Election Board				
Salaries	7,500	7,500	8,136	(636)
Fringe Benefits	1,500	1,500	1,333	167
Office Supplies	1,500	1,500	3,465	(1,965)
Publishing	250	250	201	49
Miscellaneous	2,500	2,500	553	1,947
Total	13,250	13,250	13,688	(438)
Audit				
Accounting	15,000	15,000	11,834	3,166

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Assessor				
Salaries	-	-	-	-
Fringe Benefits	21,000	21,000	21,791	(791)
Office Supplies	1,500	1,500	170	1,330
Contractual Services	45,000	45,000	44,718	282
Expenses & Education	2,500	2,500	1,444	1,056
Miscellaneous	2,500	2,500	2,471	29
New Equipment	1,500	1,500	-	1,500
Total	74,000	74,000	70,594	3,406
Attorney				
Contractual Services	35,000	35,000	25,329	9,671
Clerk				
Salaries	32,775	32,775	26,555	6,220
Fringe Benefits	11,471	11,471	8,314	3,157
Office Supplies	350	350	176	174
Telephone Expense	1,200	1,200	1,008	192
Expenses & Education	2,000	2,000	1,642	358
Equipment Rental	9,000	9,000	9,000	-
Miscellaneous	200	200	-	200
Total	56,996	56,996	46,695	10,301
Board of Review				
Salaries	1,800	1,800	1,400	400
Publishing	-	-	-	-
Miscellaneous	300	300	21	279
Total	2,100	2,100	1,421	679
Administrative Supplies				
Office Supplies	24,000	24,000	21,883	2,117

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
City Treasurer				
Salaries	14,100	14,100	14,531	(431)
Fringe Benefits	6,345	6,345	4,966	1,379
Office Supplies	3,000	3,000	1,795	1,205
Telephone Expense	2,400	2,400	1,004	1,396
Expenses & Education	2,700	2,700	2,230	470
Miscellaneous	5,000	5,000	1,147	3,853
New Equipment	500	500	-	500
Total	34,045	34,045	25,673	8,372
City Hall and Grounds				
Salaries	7,000	7,000	6,658	342
Fringe Benefits	2,450	2,450	2,226	224
Contractual Services	38,000	38,000	26,403	11,597
Total	47,450	47,450	35,287	12,163
Other City Property				
Salaries	27,260	27,260	25,719	1,541
Fringe Benefits	12,267	12,267	10,072	2,195
Materials	10,000	10,000	124	9,876
Contractual Services	75,000	75,000	23,340	51,660
Telephone Expense	500	500	331	169
Utilities	14,500	14,500	15,888	(1,388)
Equipment Rental	22,000	22,000	22,280	(280)
Miscellaneous	1,000	1,000	125	875
Total	162,527	162,527	97,879	64,648
Cemetery				
Salaries	47,040	47,040	37,072	9,968
Fringe Benefits	14,112	14,112	9,320	4,792
Operating Supplies	3,500	3,500	3,111	389
Building Maintenance	-	-	-	-
Contractual Services	20,000	20,000	19,359	641
Electric Utility	4,200	4,200	7,510	(3,310)
Equipment Rental	38,000	38,000	35,191	2,809
Total	126,852	126,852	111,563	15,289

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Planning Commission				
Salaries	2,500	2,500	1,980	520
Fringe Benefits	250	250	185	65
Office Supplies	150	150	-	150
Contractual Services	4,000	4,000	5,120	(1,120)
Expenses & Education	500	500	682	(182)
Publishing	350	350	(107)	457
Total	7,750	7,750	7,860	(110)
Zoning Board				
Salaries	720	720	420	300
Fringe Benefits	72	72	40	32
Office Supplies	-	-	16	(16)
Expenses & Education	-	-	-	-
Publishing	200	200	333	(133)
Total	992	992	809	183
Insurance and Bonds				
Employee Bonds	-	-	352	(352)
Liability Insurance	45,000	45,000	29,178	15,822
Workmen's Compensation	-	-	(4,261)	4,261
Total	45,000	45,000	25,269	19,731
General Administration				
Salaries	40,191	40,191	39,239	952
Fringe Benefits	16,076	16,076	13,989	2,087
Office Supplies	500	500	245	255
Expenses & Education	2,000	2,000	1,002	998
Miscellaneous	200	200	-	200
New Equipment	200	200	-	200
Total	59,167	59,167	54,475	4,692

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Health Insurance				
Health Insurance	51,000	51,000	34,859	16,141
Community Promotion				
Fringe Benefits	8,900	8,900	12,163	(3,263)
Alpenfest	8,000	8,000	10,566	(2,566)
Christmas Decorations	2,500	2,500	70	2,430
Safety Award Banquet	4,000	4,000	1,521	2,479
Spring Clean-Up	35,000	35,000	36,721	(1,721)
Municipal League Dues	4,000	4,000	4,307	(307)
Employee Christmas Gifts	2,500	2,500	3,406	(906)
Miscellaneous & Elk	35,000	35,000	28,838	6,162
Fall Leaf Pick-Up	23,000	23,000	17,218	5,782
Gus Macker	3,000	3,000	3,081	(81)
Tree Commission & Beautificati	6,000	6,000	4,368	1,632
Equipment Rentals	-	-	19,391	(19,391)
Civic Betterment	1,500	1,500	1,355	145
Economic Development Cord.	25,000	25,000	25,000	-
Electric Utility	3,000	3,000	2,702	298
Civic Cont.-Hist Soc/MTEK	500	500	500	-
Total	161,900	161,900	171,207	(9,307)
Total General Governmen	1,029,908	1,029,908	859,358	170,550
Public Safety:				
City Police				
Salaries	579,668	579,668	654,602	(74,934)
Fringe Benefits	321,767	321,767	280,867	40,900
Office Supplies	5,500	5,500	6,138	(638)
Investigative Supplies	-	-	1,697	(1,697)
Operating Supplies	5,750	5,750	5,516	234
Cleaning Allowance	6,000	6,000	5,545	455
Auxiliary Police	-	-	-	-
Legal Fees	8,000	8,000	294	7,706
Telephone Expense	6,000	6,000	7,308	(1,308)
Crime Prevention	1,500	1,500	186	1,314
Publishing	-	-	-	-
Outside Maintenance	-	-	-	-
Equipment Rental	69,500	69,500	69,500	-

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Miscellaneous	7,000	7,000	4,089	2,911
Justice Training Fund Expenses	9,500	9,500	2,441	7,059
Prisoner Transport	300	300	25	275
New Equipment	2,000	2,000	830	1,170
Total	1,022,485	1,022,485	1,039,038	(16,553)
Fire Services				
Contractual Services	72,912	72,912	72,912	-
Total	72,912	72,912	72,912	-
Total Public Safety	1,095,397	1,095,397	1,111,950	(16,553)
Public Works:				
Public Works Department				
Salaries	111,000	111,000	135,975	(24,975)
Fringe Benefits	55,500	55,500	72,838	(17,338)
Office Supplies	1,000	1,000	790	210
Operating Supplies	2,500	2,500	2,829	(329)
Uniforms	3,500	3,500	3,626	(126)
Materials	10,250	10,250	5,797	4,453
Contractual Services	10,000	10,000	13,135	(3,135)
Telephone Expense	2,000	2,000	1,608	392
Expenses & Education	500	500	62	438
Electric Utility	18,000	18,000	17,771	229
Equipment Rental	4,000	4,000	3,291	709
Miscellaneous	4,000	4,000	1,633	2,367
New Construction	500	500	897	(397)
Total	222,750	222,750	260,252	(37,502)

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Sidewalks				
Salaries	4,200	4,200	4,829	(629)
Fringe Benefits	1,470	1,470	1,329	141
Operating Supplies	-	-	-	-
Materials	500	500	136	364
Contractual Services	5,000	5,000	5,054	(54)
Equipment Rental	18,000	18,000	16,946	1,054
Miscellaneous	-	-	-	-
Total	29,170	29,170	28,294	876
DDA				
Salaries	51,500	51,500	46,129	5,371
Fringe Benefits	18,025	18,025	10,827	7,198
Materials	12,000	12,000	8,224	3,776
Contractual Services	-	-	2,110	(2,110)
Utilities	-	-	2,275	(2,275)
Equipment Rental	15,000	15,000	23,361	(8,361)
Miscellaneous	250	250	-	250
Total	96,775	96,775	92,926	3,849
Pavillion on Court				
Salaries	4,000	4,000	2,529	1,471
Fringe Benefits	2,000	2,000	1,063	937
Materials	500	500	-	500
Contractual Services	1,000	1,000	-	1,000
Equipment Rental	1,000	1,000	599	401
Miscellaneous	250	250	-	250
Total	8,750	8,750	4,191	4,559

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Street Lights				
Salaries	2,900	2,900	3,806	(906)
Fringe Benefits	1,595	1,595	1,838	(243)
Materials	2,000	2,000	1,247	753
Contractual Services	1,000	1,000	-	1,000
Street Lighting	65,000	65,000	58,192	6,808
Equipment Rental	1,200	1,200	1,245	(45)
Total	73,695	73,695	66,328	7,367
Parking				
Salaries	18,500	18,500	26,006	(7,506)
Fringe Benefits	10,200	10,200	11,182	(982)
Materials	1,000	1,000	-	1,000
Contractual Services	5,000	5,000	3,800	1,200
Equipment Rental	35,000	35,000	38,283	(3,283)
Total	69,700	69,700	79,271	(9,571)
Total Public Works	500,840	500,840	531,262	(30,422)
Parks and Recreation				
Salaries	12,500	12,500	16,546	(4,046)
Fringe Benefits	7,500	7,500	7,385	115
Operating Supplies	5,000	5,000	3,079	1,921
Materials	2,500	2,500	-	2,500
Contractual Services	2,500	2,500	8,245	(5,745)
Electric Utility	3,500	3,500	3,241	259
Equipment Rental	7,000	7,000	9,266	(2,266)
Park Improvements	450,000	450,000	377,457	72,543
Contractual Services	-	-	-	-
Total Parks and Recreation	490,500	490,500	425,219	65,281

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Total Expenditures	<u>3,116,645</u>	<u>3,116,645</u>	<u>2,927,789</u>	<u>188,856</u>
Other Financing Sources				
Contributions from other funds	63,888	63,888	62,500	(1,388)
Contribution to Other Funds	<u>(203,020)</u>	<u>(203,020)</u>	<u>(196,423)</u>	<u>(6,597)</u>
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	(222,889)	(222,889)	457,438	680,327
FUND BALANCE - JULY 1	<u>907,232</u>	<u>907,232</u>	<u>907,232</u>	<u>-</u>
FUND BALANCE - JUNE 30	<u><u>\$ 684,343</u></u>	<u><u>\$ 684,343</u></u>	<u><u>\$ 1,364,670</u></u>	<u><u>\$ 680,327</u></u>

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND
ACTUAL
MAJOR STREET FUND
YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
REVENUE				
Intergovernmental:				
Gas & Weight Tax	\$ 240,000	\$ 240,000	\$ 196,979	\$ (43,021)
Trunkline Maintenance	102,520	102,520	114,026	11,506
Other state shared revenue	20,000	20,000	6,250	(13,750)
	-	-	-	-
Total Revenue	362,520	362,520	317,255	(45,265)
EXPENDITURES				
Major Streets				
Construction	1,000	1,000	4,337	(3,337)
Routine maintenance	62,250	62,250	44,601	17,649
Traffic maintenance	27,950	27,950	28,471	(521)
Winter maintenance	86,050	86,050	77,808	8,242
Administration	38,275	38,275	33,270	5,005
Total Major Streets	215,525	215,525	188,487	27,038
Trunkline Maintenance				
Routine maintenance	3,560	3,560	1,402	2,158
Sweeping	11,465	11,465	10,287	1,178
Shoulder maintenance	295	295	406	(111)
Drainage	4,200	4,200	1,166	3,034
Trunkline Leave/Overhead	-	-	-	-
Traffic signs	390	390	592	(202)
Winter maintenance	80,700	80,700	70,734	9,966
Snow hauling	3,820	3,820	6,346	(2,526)
Total Trunkline Maint.	104,430	104,430	90,933	13,497
Total Expenditures	319,955	319,955	279,420	40,535
Excess (deficiency) of revenue over expenditures	42,565	42,565	37,835	(4,730)
OTHER FINANCING SOURCES				
Contributions from other funds	-	-	-	-
Contributions to Other Funds	(35,000)	(35,000)	(129,842)	(94,842)
	35,000	35,000	129,842	(94,842)
Excess (deficiency) of revenue and other financing sources over expenditures	7,565	7,565	(92,007)	(99,572)
FUND BALANCE - JULY 1	101,863	101,863	101,863	-
FUND BALANCE - JUNE 30	\$ 109,428	\$ 109,428	\$ 9,856	\$ (99,572)

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND
ACTUAL
LOCAL STREET FUND
YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
REVENUE				
Intergovernmental				
Gas & Weight Tax	\$ 82,000	\$ 82,000	\$ 94,759	\$ 12,759
Other state shared revenue	2,500	2,500	2,646	146
Miscellaneous	-	-	-	-
Total Revenue	84,500	84,500	97,405	(12,905)
EXPENDITURES				
Storm sewer construction	2,798	2,798	18	2,780
Routine maintenance	57,750	57,750	68,751	(11,001)
Traffic services	10,560	10,560	6,812	3,748
Winter maintenance	94,350	94,350	90,950	3,400
Administration	38,800	38,800	33,804	4,996
Capital Outlay	-	-	1,133,724	(1,133,724)
Total Expenditures	204,258	204,258	1,334,059	(1,129,801)
Excess (deficiency) of revenue over expenditures	(119,758)	(119,758)	(1,236,654)	(1,116,896)
OTHER FINANCING SOURCES				
Contributions from other funds	120,000	120,000	1,238,724	1,118,724
Excess (deficiency) of revenue and other financing sources over expenditures	242	242	2,070	1,828
FUND BALANCE - JULY 1	22,265	22,265	22,265	-
FUND BALANCE - JUNE 30	\$ 22,507	\$ 22,507	\$ 24,335	\$ 1,828

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND
ACTUAL
MUNICIPAL STREET FUND
YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
REVENUE				
Property taxes	\$ 745,000	\$ 745,000	\$ 743,844	\$ (1,156)
Federal Grants	1,262,620	1,262,620	1,237,412	(25,208)
Miscellaneous Income	-	-	1,831	1,831
Total Revenue	2,007,620	2,007,620	1,983,087	(24,533)
EXPENDITURES				
Highways and streets	1,981,500	1,981,500	1,032,255	949,245
Excess of Revenue over Expenditures	26,120	26,120	950,832	(924,712)
OTHER FINANCING SOURCES (USES)				
Contributions to Other Funds	-	-	(1,429,015)	(1,429,015)
Excess (deficiency) of revenues and other financing sources over expenditures	26,120	26,120	(478,183)	(504,303)
FUND BALANCE - JULY 1	1,690	1,690	1,690	-
FUND BALANCE - JUNE 30	\$ 27,810	\$ 27,810	\$ (476,493)	\$ (504,303)

**CITY OF GAYLORD
REQUIRED SUPPLEMENTAL INFORMATION
PENSION SYSTEM SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2006**

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAA (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
<u>General Employees' Retirement System</u>						
12/31/98	\$ 2,663,466	\$ 3,141,830	\$ 478,364	85%	\$ 1,107,276	43%
12/31/99	3,105,967	3,467,125	361,158	90%	1,123,021	32%
12/31/00	3,464,029	4,024,126	560,097	86%	1,219,683	46%
12/31/01	3,744,764	4,504,543	759,779	83%	1,239,318	61%
12/31/02	3,855,330	4,988,140	1,132,810	77%	1,317,644	86%
12/31/03	4,155,365	5,431,787	1,276,422	77%	1,424,335	90%

The schedule of employer contributions is as follows:

General Employees' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
06/30/99	12/31/96	\$ 97,783	100.0
06/30/00	12/31/97	142,708	100.0
06/30/01	12/31/98	158,420	100.0
06/30/02	12/31/99	169,769	100.0
06/30/03	12/31/00	159,495	100.0
06/30/04	12/31/01	179,681	100.0

* The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated.
Additional information as of December 31, 2001, is as follows:

General Employees' Retirement System

Actual cost method	Entry age
Amortization	Level percent
Amortization period (perpetual)	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	4.5% - 8.66%
* Includes inflation at	4.5%
Cost of living adjustments	None

OTHER SUPPLEMENTAL INFORMATION

**CITY OF GAYLORD
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006**

		<u>Debt Service Funds</u>		
		<u>Edelweiss</u>	<u>Mankowski Rd</u>	<u>Pavillion Debt</u>
ASSETS				
Cash & Equivalents		\$ -	\$ 50,001	\$ 25
Accounts Receivables		-	20,142	331,800
Inventories		-	-	-
Due From Other Funds		-	-	5,483
Total Assets		-	70,143	337,308
LIABILITIES AND FUND EQUITY				
Liabilities				
Accounts Payable		-	-	-
Due to Other Funds		-	-	7,365
Deferred Revenue		-	20,142	331,800
Total Liabilities		-	20,142	339,165
Fund Equity				
Fund Balance (Deficit)				
Debt Service		-	50,001	(1,857)
Capital Projects		-	-	-
Total Fund Equity		-	50,001	(1,857)
Total Liabilities and Fund Equity		\$ -	\$ 70,143	\$ 337,308

Capital Projects Funds

City Hall	IDC	Total
<hr/>	<hr/>	<hr/>
\$ 3,000	\$ -	\$ 53,026
-	-	351,942
-	-	-
-	-	5,483
<hr/>	<hr/>	<hr/>
3,000	-	410,451
<hr/>	<hr/>	<hr/>
1,271	-	1,271
22,000	490,976	520,341
-	-	351,942
<hr/>	<hr/>	<hr/>
23,271	490,976	873,554
-	-	48,144
(20,271)	(490,976)	(511,247)
<hr/>	<hr/>	<hr/>
(20,271)	(490,976)	(463,103)
<hr/>	<hr/>	<hr/>
\$ 3,000	\$ -	\$ 410,451
<hr/>	<hr/>	<hr/>

CITY OF GAYLORD
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE (DEFICIT)
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	<u>Debt Service Funds</u>		
	<u>Edelweiss</u>	<u>Mankowski Rd</u>	<u>Pavillion Debt</u>
Revenue:			
Property taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
State shared / Intergovernmental	-	-	-
Cemetery	-	-	-
Interest income	-	-	-
Police and parking	-	2,223	-
Special Assessment Collections	-	-	-
Miscellaneous	-	4,270	-
	-	18,482	-
Total Revenue	-	24,975	-
Expenditures:			
General Government	-	-	-
Public Safety	-	-	-
Public Works	-	-	-
Recreation & Culture	-	-	-
Debt Service	62,795	20,828	101,550
Capital Outlay	-	-	-
	62,795	20,828	101,550
Other Financing Sources (Uses):			
Contributions from other funds	62,795	-	101,550
Contributions to Other Funds	-	-	-
	62,795	-	101,550
Net Change in Fund Balances	-	4,147	-
Fund Balance (Deficit) - July 1	-	45,854	(1,857)
Fund Balance (Deficit) - June 30	\$ -	\$ 50,001	\$ (1,857)

Capital Project funds

City Hall	IDC	Total
<hr/>	<hr/>	<hr/>
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
-	-	2,223
-	-	-
-	-	4,270
-	(5,000)	13,482
<hr/>	<hr/>	<hr/>
-	(5,000)	19,975
-	-	-
-	-	-
-	-	-
-	-	185,173
20,271	-	20,271
<hr/>	<hr/>	<hr/>
20,271	-	205,444
-	-	164,345
-	-	-
<hr/>	<hr/>	<hr/>
-	-	164,345
<hr/>	<hr/>	<hr/>
(20,271)	(5,000)	(21,124)
-	(485,976)	(441,979)
<hr/>	<hr/>	<hr/>
\$ (20,271)	\$ (490,976)	\$ (463,103)
<hr/>	<hr/>	<hr/>

SINGLE AUDIT REPORTS AND SCHEDULES

CITY OF GAYLORD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	PROGRAM OR AWARD AMOUNT	CASH RECEIPT/ PAYMENTS IN-KIND	FEDERAL EXPENDITURES CURRENT YEAR
State of Michigan Passthrough Grants:					
Housing and Community Development	14.228	MSC 203074-EDIG	344,300	344,300	344,300
Michigan Economic Development Corporation	14.228	MSC 205018-EDIG	150,000	-	66,000
Michigan Strategic Fund	14.228	MSC 204040-PW	867,500	867,500	867,500
Michigan Department of Transportation	20.205	HH4242	323,000	303,912	303,912
Michigan State Police - Homeland Security Grant	97.004		2,702	2,702	2,702
Totals			1,687,502	1,518,414	1,584,414

See accompanying notes to the schedule of expenditures of federal awards

CITY OF GAYLORD
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

NOTE 1: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Gaylord and is presented on the basis of accounting as described in Note 1 to the financial statements. The information in this schedule is in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

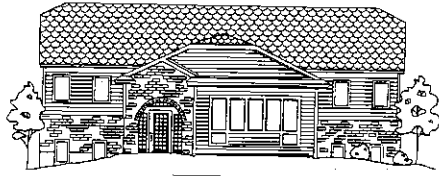
NOTE 2: EXPENDITURES

Management has reported that the expenditures in this Schedule of Expenditures of Federal Awards (SEFA) are in agreement with the amounts reported in the financial statements. Total expenditures on this schedule reconciles to total federal revenues reported on the financial statements as follows:

Total Federal Revenues, per financial statements	
Governmental Funds	\$ 1,240,114
Proprietary Funds	<u>344,300</u>
 Total federal expenditures, per SEFA	 <u>\$ 1,518,414</u>

NOTE 3: SUPPORTING DOCUMENTATION

For the major programs selected, the financial reports, including claims for advances and reimbursements, and amounts claimed or used for matching, are timely, complete, accurate, and contain information that is supported by the books and records from which the basic financial statements have been prepared.



Keskin, Cook, Miller & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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Ronald D. Alexander, C.P.A.
Curt A. Reppuhn, C.P.A.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

November 30, 2006

City Council
City of Gaylord
Gaylord, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Gaylord as of and for the year ended June 30, 2006, which collectively comprise the City of Gaylord's basic financial statements and have issued our report thereon dated November 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

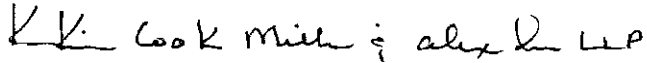
In planning and performing our audit, we considered City of Gaylord's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

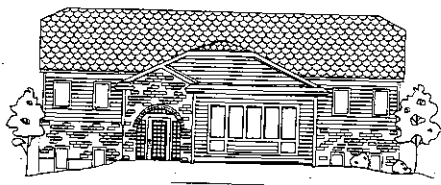
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Gaylord's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the City of Gaylord in a separate letter dated November 30, 2006.

This report is intended solely for the information and use of the audit committee, management, Gaylord City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Keskin, Cook, Miller & Alexander, LLP



Keskin, Cook, Miller & Alexander LLP
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

November 30, 2006

City Council
City of Gaylord
Gaylord, Michigan

Compliance

We have audited the compliance of City of Gaylord with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. City of Gaylord's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Gaylord's management. Our responsibility is to express an opinion on City of Gaylord's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Gaylord's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Gaylord's compliance with those requirements.


In our opinion, the City of Gaylord complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of City of Gaylord is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Gaylord' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Gaylord city council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Keskine, Cook, Miller & Alexander, LLP

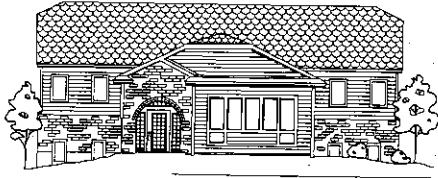
**CITY OF GAYLORD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses a unqualified opinion on the financial statements of the City of Gaylord.
2. No reportable conditions relating to the audit of the financial statements are reported in the *Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting in Accordance with Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the City of Gaylord were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs is reported in the *Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs for the City of Gaylord expresses a unqualified opinion.
6. The programs tested as major programs include Housing and Economic Development funded by passthrough funding by the State of Michigan.
- 7.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. City of Gaylord was not determined to be a low risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

No reportable instances of findings relating to the financial statements were noted during the audit.



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November 30, 2006

To the City Council
City of Gaylord
225 W. Main Street
Gaylord, MI 49735

We have audited the financial statements of the City of Gaylord for the year ended June 30, 2006, and have issued our report thereon dated November 30, 2006. Professional standards required that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 27, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Gaylord. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about the past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the allowance for doubtful accounts is based on the historical average of previous fiscal years. We evaluated the key factors and assumption used to develop the historical uncollectible rate in determining that it is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). In our opinion, none of the adjustments we proposed, whether recorded or unrecorded by the City, either individually or in the aggregate, indicate matters that could have a significant effect on the City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We discussed a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the City's auditors. However, these discussions occurred in the normal course of the professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Other Comments and Recommendations

The City has various funds noted in the financial statements with deficits in violation of Michigan statutes. We understand the City will provide the State of Michigan a deficit reduction plan to address these shortages.

It was noted, during the audit, that some expenditures were in excess of the approved budget. In many cases this was caused by additional funding sources or grants and an amendment was not made to the original budget to account for the expenditure increase. Budgets should be reviewed from time to time to assure compliance with the State of Michigan statutes.

This information is intended solely for the use of the City Council and management of the City of Gaylord and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


Keskin, Cook, Miller & Alexander, LLP